

JLBC **MONTHLY FISCAL HIGHLIGHTS** **December 2006**

November General Fund revenue collections were \$609.3 million, or 4.1% above November 2005. This amount was \$(10.6) million below the forecast for the month. The forecast comparison is based on projected FY 2007 revenues from the enacted budget. For the fiscal year-to-date, collections are \$87.1 million above the forecast. *(See Table 3 on page 2.)*

Following a strong October, collections slowed in November. Of the major tax categories, November sales tax grew at a healthy rate of 9.4%, while individual income collections only increased 1.3%. For the year-to-date, total collections are 9.3% above last year. *(See Table 6 on page 9 for details.)*

In other fiscal news this month, the Finance Advisory Committee (FAC) met on December 12th *(page 4)*. The FAC is a panel of 15 leading economists that advises the Legislature 3 times a year on the state's economy. The FAC continued to express a cautious outlook for the economy, and revised their expectations for FY 2008 revenue growth downward. Based on the FAC's input and 3 other models, the largest revenue categories are forecasted to grow 8.2% in FY 2007 and 4.8% in FY 2008.

The Joint Legislative Income Tax Credit Review Committee met on December 7th *(page 4)*. The purpose of the Committee is to evaluate existing state income tax credits on a periodic schedule. This year the Committee reviewed 5 credits. The Committee recommended adding an inflation index to the

Family Income Credit. The Committee also recommended repealing the Solar Hot Water Heater Plumbing Stub Out and Electric Vehicle Recharge Outlet Credit due to low usage of the credit. The Committee recommended no changes to the other credits.

The JLBC met on December 15th *(pages 5 – 6)*. Highlights included:

- The JLBC approved a transfer of \$6.7 million from the Arizona Department of Corrections (ADC) operating budget to fund additional overtime and compensatory time costs. The \$6.7 million represents excess funding allocated to ADC as a result of Correctional Officer Retirement Plan employer contribution rates being lower than budgeted for in FY 2007.
- The JLBC approved the Calendar Year (CY) 2007 and 2008 operating budgets for the State Compensation Fund (SCF). In CY 2007, the total SCF operating budget is \$104.5 million, an increase of 4.6% above CY 2006. The budget would increase an additional 4.2% in CY 2007, for a total of \$108.9 million in that year.

The Monthly Fiscal Highlights also include a summary of recent statutory reports to JLBC *(pages 6 – 8)*. Of note, the Department of Corrections has reduced its FY 2007 shortfall estimate, reported as \$28.5 million last month, to \$5.2 million.

Table of Contents

Page

November Revenues	2
Recent Economic Indicators	2
Finance Advisory Committee Meeting	4
Joint Income Tax Credit Review Committee Meeting.....	4

December 18 JLBC Meeting Summary

- AHCCCS – Medical and Dental Capitation Rates.....	5
- ADC – Transfer of Appropriations	5
- ASDB – School Bus Replacement Expenditure Plan	5
- DES – Adoption Services – Family Preservation Projects ...	5
- JLBC Staff – Strategic Program Area Review Topics.....	5
- DPS – GITEM Expenditure Plan.....	5
- DOR – Kerr Expenditure Plan	5
- State Comp. Fund – CY 2007 and 2008 Budgets	6
- Superior Court – Probation Officer Salaries Expenditures	6
- ADOT – Third Party Quality Assurance and Transactions....	6

Page

Summary of Recent Agency Reports

- AHCCCS – Semi-Annual Report on Healthcare Group.....	6
- Comm. Colleges – Workforce Development Expenditures ..	6
- ADC – Monthly Expenditures.....	6
- ACJC – Criminal Justice Enhancement Fund	6
- ACJC – Methamphetamine Interdiction Efforts.....	6
- DES – Domestic Violence Funding	7
- DEQ – Water Quality Assurance Revolving Fund.....	7
- DEQ – Alternative Testing and Compliance Study.....	7
- DHS – AIDS Drug Assistance Program Expenditures.....	7
- DHS – Arnold v. Sarn	7
- ABOR – Enrollment Counting Day Report.....	7
- ABOR/ACC – Transfer Articulation.....	8
- DOR – General Fund Enforcement Revenue	8
- DOR – Ladewig Expenditures	8
- DWR – Assured and Adequate Water Supply Fees	8
- DWR – Indian Farming Expenditure Plan	8

NOVEMBER REVENUES

Sales Tax collections were \$365.4 million in November, or 9.4% above last November. The following table displays the November and year-to-date growth rates for the major categories.

Table 1**Sales Tax Growth Rates**

	<u>November</u>	<u>Year-to-Date</u>
Retail	2.5%	4.5%
Contracting	22.2%	19.5%
Utilities	7.3%	11.7%
Use	8.4%	7.0%
Restaurant & Bar	20.7%	10.1%

Overall, sales collections continued to grow at a healthy pace, though slower than FY 2006. Of note, restaurant and bar collections increased significantly from last November, while retail posted its lowest level of growth in over 3 years. For the month, revenues were \$6.0 million above the forecast.

Individual Income Tax collections were \$249.5 million in November, or 1.3% above last year. *Table 2* displays the November and year-to-date growth rates for the individual income tax categories.

Table 2**Individual Income Tax Growth Rates**

	<u>November</u>	<u>Year-to-Date</u>
Withholding	3.2%	6.3%
Estimated + Final Payments	98.4%	46.0%
Refunds	99.3%	54.5%

Following a strong performance in October, withholding tax collections slowed again in November. Final tax payments continued to grow at a substantial rate from last year, while refunds were again higher than anticipated. Monthly revenues were \$(17.1) million below the forecast.

Corporate Income Tax collections were \$5.2 million in November, or (11.8)% below last year. For the month, corporate income tax revenues were \$(1.0) million below the forecast. Even though revenues declined for the month, November accounts for only a small portion of overall collections. Year-to-date, revenues are 21.9% above last year.

RECENT ECONOMIC INDICATORS

“Final” 3rd quarter 2006 statistics indicated that **U.S. Gross Domestic Product (GDP)** advanced at a 2.0% annual rate, which was somewhat slower than the 5.6% and 2.6% growth rates recorded for the first 2 quarters of the year. Declining residential investment and a reduction in net exports were offset by increased spending on personal consumption, nonresidential structures, and equipment and software.

Semiconductor sales reached record levels for the 4th consecutive month. The Semiconductor Industry Association (SIA) reported that **U.S. semiconductor billings** (3-month moving average) climbed 1.5% in October and were 9.9% higher than the same period one year ago. Robust sales of dynamic random access memory (DRAM) and digital signal processing (DSP) devices led the latest improvement. However, the SIA noted that slowing economic growth may affect semiconductor sales in the months ahead.

Consumer sentiment, which edged down in October, dipped again in November, falling (2.1)% from the prior month. The Conference Board’s **U.S. Consumer Confidence Index** now stands 4.7% above its level from a year ago. Consumers’ assessment of current conditions turned down and their view of the job market also was less favorable than in October.

The **U.S. Index of Leading Economic Indicators** increased 0.1% in November, following revised increases of 0.4% and 0.1% in September and October, respectively. November’s gain was led by improvements in vendor performance, manufacturers’ new orders and stock prices, while unemployment insurance claims, building permits and consumer expectations posted negative results.

Meanwhile, inflation remained under control. The **U.S. Consumer Price Index (CPI)** (3-month moving average) dropped (0.4)% in November, reducing the year-over-year change to just 1.8%. Although gasoline prices increased, other fuel prices and transportation costs were falling while food prices dipped slightly. Excluding food and energy prices, the core CPI was unchanged in November and was 2.6% higher than a year ago.

Table 3

**General Fund Revenues
Compared to Enacted Forecast and FY 2006 Collections**

(\$ in Millions)

	<u>FY 2007 Collections</u>	<u>Difference From Forecast</u> ^{1/}	<u>Difference From FY 2006</u>
November	\$ 609.3	\$ (10.6)	\$ 24.0
Year-to-Date	\$ 3,635.6	\$ 87.1	\$ 310.6

^{1/} Enacted FY 2007 budget (June 2006)

The Census Bureau reported that **Arizona's population** swelled to 6.17 million in 2006, an increase of more than 213,000 from 2005. Arizona's estimated 3.6% year-over-year growth rate was the fastest in the nation, and only 4 other states – Texas, Florida, California and Georgia – added more people during the year.

The 3rd quarter 2006 state **personal income** statistics showed that Arizona ranked 7th in the nation with a 7.1% year-over-year growth rate. Arizona's growth rate was down from the revised 8.5% year-over-year gain posted in 2006's 2nd quarter. The state's real estate sector was the only major industry to register a decline in earnings from the prior quarter.

Arizona's job market continued to expand in November. **Non-farm employment** increased by 116,400 jobs, or 4.5%, from November 2005. Although manufacturing employment was down slightly from a year ago, construction jobs increased by more than 10% and the retail trade sector posted a solid 5.7% year-over-year advance. The state's seasonally adjusted **unemployment rate** increased to 4.1% but remained well below the 4.7% level reported in November 2005.

The **Arizona Leading Economic Indicators Index** climbed 0.2% in October, signaling that moderate economic growth may continue in the months ahead. New orders and the money supply made positive contributions, while production, employment and sensitive materials prices were among the negative factors.

The **Arizona Business Conditions Index (BCI)** increased 5.0% to 63.8 in November and reached its highest level since December 2005. Surges in the new orders and delivery time components drove the index higher, while the inventories, production, and employment components mitigated the improvement.

Arizona's housing market continued to falter in recent months. The number of **single-family residential building permits** issued (3-month moving average) decreased (9.5)% in October and was (47.0)% below the number reported a year ago. The number of **multi-family housing units authorized** dropped (15.6)% in October and was (60.6)% below the level from a year ago.

Table 4

RECENT ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate	November	4.1%	0.2%	(0.6)%
- Jobs	November	2.70 million	0.8%	4.5%
- Contracting Tax Receipts (3-month average)	Sep-Nov	\$83.0 million	0.5%	20.0%
- Retail Sales Tax Receipts (3-month average)	Sep-Nov	\$158.9 million	(3.4)%	4.3%
- Residential Building Permits - (3-month moving average)				
Single-unit	Aug-Oct	3,533	(9.5)%	(47.0)%
Multi-unit	Aug-Oct	531	(15.6)%	(60.6)%
- Greater Phoenix Existing Home Sales				
Single-Family	November	5,040	1.1%	(30.0)%
Townhouse/Condominium	November	920	0.5%	(42.5)%
- Greater Phoenix Median Home Sales Price				
Single-Family	November	\$259,000	0.8%	(1.5)%
Townhouse/Condominium	November	\$172,000	(1.7)%	4.2%
- Arizona Tourism Barometer	August	102.8	(1.2)%	(0.8)%
- Phoenix Sky Harbor Air Passengers	October	3.4 million	10.7%	(2.4)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	September	\$6.77	(6.2)%	(23.6)%
- Leading Indicators Index	October	119.2	0.2%	(0.5)%
- Business Conditions Index (>50 signifies expansion)	November	63.8	5.0%	(3.2)%
- Consumer Confidence Index	4 th Quarter 2006	105.3	2.5%	7.3%
- Business Leaders Confidence Index	4 th Quarter 2006	48.1	(3.0)%	(12.1)%
- Arizona Personal Income	3 rd Quarter 2006	\$195.4 billion	1.8%	7.1%
- Arizona Population	July 1, 2006	6.17 million	3.6%	3.6%
- AHCCCS Recipients	December	1,026,550	(0.3)%	(2.4)%
- TANF Recipients	October	86,562	(1.2)%	(12.6)%
- DOC Inmate Growth (3-month average)	Sep-Nov	35,614	217 inmates	2,436 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	3 rd Quarter 2006	\$11.4 trillion	2.0%	3.0%
- Consumer Confidence Index	November	102.9	(2.1)%	4.7%
- Leading Indicators Index	November	138.2	0.1%	0.0%
- U.S. Semiconductor Billings (3-month moving average)	Aug-Oct	\$3.95 billion	1.5%	9.9%
- Consumer Price Index (3-month moving average)	Sep-Nov	202.1	(0.4)%	1.8%

The Real Estate Center at Arizona State University estimated that the Greater Phoenix **single-family median resale home price** edged up 0.8% to \$259,000 in November but remained below the \$267,000 record set in June 2006. The number of existing single-family homes sold increased 1.1% from the prior month but was (30.0)% less than the number sold a year ago. The number of multi-family units sold fell (42.5)% on a year-over-year basis. The **townhouse-condominium median price** declined (1.7)% to \$172,000 in November and was 4.2% higher than a year ago.

The **Arizona Tourism Barometer** decreased (1.2)% in August and was running (0.8)% below the reported results from a year ago. High fuel costs may have played a role in limiting tourism activity and air travel in general. **Air passenger traffic** at Phoenix's Sky Harbor Airport totaled 3.4 million in October but was down on a year-over-year basis for the 4th month in a row.

The **Department of Corrections' inmate population** increased by an average of 217 inmates per month from September through November. The total population increased by 2,436 inmates from a year ago.

The number of **TANF** recipients decreased (1.2)% to 86,562 in October and was (12.6)% below the level from October 2005. The **AHCCCS caseload** decreased (0.3)% in December from the prior month and was (2.4)% below the level from a year ago.

FINANCE ADVISORY COMMITTEE MEETING

At its December 12th meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund revenue collections, the U.S. economy, and Arizona's economy. The FAC is a 15-member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

The Committee expressed a cautious view of the economy. Housing and consumer spending have slowed, while wages, employment, and corporate profits continue to be strong. Over the next year, the Committee generally expects the economy to grow at a slower pace.

The FAC panel members were also asked to provide their FY 2007 – FY 2010 forecasts for the 3 largest revenue categories: sales, individual income and corporate income taxes. In FY 2008, the FAC projected that revenues associated with these categories would increase 5.0%. This forecast was more conservative than the prior Committee

meeting (September 2006). At that meeting, the FAC forecast revenue growth of 6.9% for these categories.

The FAC is one of the 4 inputs into the JLBC Staff's 4-sector consensus forecast. The other 3 inputs are:

- The University of Arizona Economic and Business Research (EBR) General Fund baseline model;
- The EBR conservative forecast model; and
- JLBC Staff projections.

Based on the 4-sector consensus, the "Big 3" revenues are forecasted to grow 8.2% in FY 2007 and 4.8% in FY 2008 (see Table 5). The FAC panel predicts similar growth rates to the consensus forecast in both of those years.

JOINT INCOME TAX CREDIT REVIEW COMMITTEE MEETING

Laws 2002, Chapter 238 established the Joint Legislative Income Tax Credit Review Committee and specified a schedule for review of corporate and individual income tax credits. The Committee met December 7th.

The Committee is charged with determining the original purpose of each of the existing income tax credits, and establishing a standard for evaluating the success or failure of the credit. The standard for evaluation of the credits may include: 1) the history, rationale and revenue impact; 2) the benefit to the state in various economic terms; and 3) the complexity in the use and administration of the credit. The JLBC Staff provided the Committee with background information on each of the credits.

The Committee discussed the following 5 credits:

Family Income Tax Credit

The credit is provided to individual taxpayers below certain income levels. The cost of the credit was \$7.5 million in Tax Year (TY) 2005. In that year, approximately 420,000 taxpayers claimed an average credit of \$18. Although it is labeled as a family credit, almost half of the claimants were single households with no dependents. The Committee recommended indexing for inflation the income level required to qualify for the credit.

Private School Tuition Organization Credit

The credit is provided to individual taxpayers for contributions to a school tuition organization (STO). An STO is a charitable organization that allocates at least 90% of its revenues for

Table 5

4-Sector "Big 3" Consensus Forecast: FY 2007 – FY 2010

	FY 2007	FY 2008	FY 2009	FY 2010
Sales Tax	6.8%	4.6%	4.9%	6.1%
Individual Income Tax	7.3%	5.7%	6.3%	7.1%
Corporate Income Tax	18.6%	2.1%	(1.2)%	1.8%
Overall Weighted Growth	8.2%	4.8%	4.8%	6.1%

educational scholarships or grants to K-12 private schools. In TY 2005, STO's independently reported \$42.2 million in contributions. Almost 70,000 taxpayers contributed, with an average contribution of \$609. While the credit reduces state revenues, it may also impact state K-12 education costs if students attend private school who would otherwise attend public school. The Committee recommended no changes to the credit.

Public School Extracurricular Activity Fee Credit

The credit is provided to individual taxpayers for fees or contributions to a K-12 public school in support of extracurricular activities or character education programs. In TY 2005, public schools independently reported \$35.3 million in contributions. Approximately 215,000 taxpayers contributed, with an average contribution of \$164. The Committee recommended no changes to the credit.

School Site Donation Credit

The credit is provided to individual and corporate taxpayers for donations of real property and improvements to a K-12 public school for use as a school or as a site for construction of a school. For individual taxpayers, the cost of the credit was \$2.9 million in TY 2001, but decreased over the next 2 years to about \$560,000 in TY 2003. The cost of the credit associated with corporate taxpayers was about \$615,000 in TY 2004. The Committee recommended no changes to the credit.

Solar Hot Water Heater Plumbing Stub Out and Electric Vehicle Recharge Outlet Credit

The credit is provided to individual and corporate taxpayers for installing solar water heater plumbing stub outs or electric vehicle recharge outlets. The cost of the credit was only about \$5,000 in TY 2004. In that year, 12 taxpayers claimed an average credit of \$445. Due to the limited use of the credit, the Committee recommended repealing it.

JLBC MEETING

At its December 18th meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Health Care Cost Containment System – Review of Comprehensive Medical and Dental Program (CMDP) Capitation Rate Changes – The Committee gave a favorable review to AHCCCS' proposed capitation rates for the CMDP Program, which provides medical and dental care to children in the foster care. The capitation rate changes are expected to save the General Fund approximately \$(63,200) in FY 2007.

Arizona Department of Corrections – Consider Approval of Requested Transfer of Appropriations – The Committee approved a transfer of \$6.6 million from the Department of Correction's (DOC) ERE line item to the Overtime/Compensatory Time (OT/CT) line item. The \$6.6 million represented excess monies allocated to the department resulting from the actual Correctional Officer Retirement Plan (CORP) employer contribution rates being lower than the budgeted FY 2007 rates. The agency had requested the approval of a \$17.8 million transfer. However, it was not

clear if the transfer of \$17.8 million from the agency's employee benefits line would leave enough money for the agency to cover their costs for FY 2007.

Arizona State Schools for the Deaf and Blind – Review of School Bus Replacement Expenditure Plan – The Committee gave a favorable review to the Arizona State Schools for the Deaf and Blind's (ASDB) expenditure plan for bus replacement. ASDB plans to replace 10 gasoline buses with 10 diesel buses at a total cost of \$913,700. ASDB plans to pay for the buses with its appropriation for bus replacement (\$850,000) and through its operating budget (\$63,700).

Department of Economic Security – Review of Expenditure Plan for Adoption Services – The Committee gave a favorable review to a Department of Economic Security (DES) expenditure plan for the \$1 million appropriation to the Adoption Services – Family Preservation Project line item in the Division of Children, Youth and Families budget. The Committee included a provision that DES restructure the budget based on the reported priorities so it will not exceed the \$1 million budget in future years if the initiatives were to continue. The initiatives include additional resources for the adoption hotline, as well as training, counseling and other support services for adoptive families. The proposed cost of the initiatives would be about \$600,000 in FY 2007, with an annualized cost of \$1.8 million in future years.

JLBC Staff – Consider Approval of Year 2007-2008 Strategic Program Area Reviews – The Committee gave a favorable review to Strategic Program Area Reviews (SPAR) of substance abuse funding and debt and third-party financing in calendar year 2007. SPARS are intended to review issues that often involve multiple agencies and evaluate the efficiency, effectiveness and necessity of these programs. The Legislature would receive the recommendations of JLBC Staff and the Office of Strategic Planning and Budgeting for consideration in the 2008 session.

Department of Public Safety – Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission – The Committee gave a favorable review to the Gang and Immigration Intelligence Team Enforcement Mission's (GITEM) expenditure plan. The Department of Public Safety will use \$1.3 million to fund the purchase of specialty equipment and the operating costs associated with 10 federal Border Patrol agents and \$5.5 million to fund the costs associated with adding an additional 37 DPS officers to GITEM.

Arizona Department of Revenue – Review of Kerr Expenditure Plan – The Committee gave a favorable review of the Department of Revenue's (DOR) expenditure plan for Kerr administrative costs. The case of Kerr v. ADOR involved the state income tax treatment of federal employees' retirement system contributions and Arizona's employees' contributions to the State Retirement System for the years 1985 – 1990. DOR was appropriated \$975,000 in FY 2006 for administrative costs of the lawsuit.

State Compensation Fund – Consider Approval of Calendar Year 2007 and 2008 Budgets – The Committee approved the State Compensation Fund's (SCF) budgets for Calendar Year (CY) 2007 and 2009. The SCF operating budget of \$104.5 million (and 530 employees) in CY 2007 represents a \$4.6 million (4.6%) increase above CY 2006. The CY 2008 budget of \$108.9 million (and 531 employees) represents a \$4.4 million (4.2%) increase above CY 2007.

Superior Court – Review of Expenditures of Judicial Collection Enhancement Fund (JCEF) Balance for Probation Officer Salaries – The Committee gave a favorable review of the Superior Court's JCEF expenditure, which was \$700,000 above the agency's appropriated amount. The Superior Court's FY 2007 JCEF original appropriation was \$2,723,800. The monies from the fund are used for salaries for county probation officers. The Committee also discussed the one-time nature of the JCEF expenditures.

Department of Transportation – Review of Third Party Quality Assurance Report and Percentage of Third Party Transactions Report – The Committee gave a favorable review to the Department of Transportation's (ADOT) Third Party Quality Assurance Report and the Percentage of Third Party Transactions Report. Highlights of the 2 reports include: 1) The backlog of title transactions decreased from 31 business days in FY 2006 to 20 business days in the first quarter of FY 2007; 2) ADOT removed the moratorium on new third parties; 3) ADOT has developed a statistical sampling method which the agency believes would reduce the percent of reviewed third party transactions and still retain statistical validity.

The Committee requested that ADOT provide a progress report on their statistical sampling method by April 30, 2007.

SUMMARY OF RECENT AGENCY REPORTS

AHCCCS – Semi-Annual Report on Healthcare Group – Pursuant to A.R.S. § 36-2912, AHCCCS is submitting its semi-annual report to the Committee on the number and types of businesses participating in Healthcare Group (HCG). This report also provides a description of HCG activities since its last semi-annual report submitted July 2006. AHCCCS reports that, as of October 7, 2006, total statewide HCG enrollment was 23,444, with participating members from 8,294 private employers and 13 political subdivisions. AHCCCS reports that since October 2005, enrollment has increased by 6,820 people, or 41%. AHCCCS' FY 2008 budget request projects June 2008 enrollment to be 35,500.

HCG notes that member retention has increased from 96% in October 2005 to 97% in October 2006, but decreased from the 98% retention experienced in June 2006.

Arizona Community Colleges – Report on Workforce Development Expenditures – The Arizona Community Colleges are reporting on their previous year's workforce development plan activities and expenditures. A.R.S. § 15-1472 requires each community college district to establish a

workforce development account. Monies in the account are derived from Proposition 301 sales tax revenues and shall be used for workforce development and job training. Total revenues in FY 2006 were \$16,447,400 and total expenditures in the same year were \$11,880,300.

Arizona Department of Corrections – Report on Expenditures – Pursuant to Laws 2006, Chapter 344 (General Appropriation Act), the Arizona Department of Corrections (ADC) is required to report on the monthly and year-to-date expenditures for the current and prior fiscal year. The report is also to include potential shortfalls, any estimated surpluses to offset the shortfalls, and a plan for eliminating the shortfall.

Based on the October 2006 report, the department is now estimating a FY 2007 shortfall of \$(5.2) million. This is a decrease of \$(23.3) million from last month, when the department projected a FY 2007 shortfall of \$(28.5) million. The overall shortfall is comprised of surpluses and deficits within various line items; however, the deficit is primarily due to overtime and compensatory time expenditures. To address the overtime and compensatory time deficit, the department has requested JLBC approval to transfer monies from the ERE line item. At its December 18, 2006 meeting, the JLBC approved a \$6.7 million transfer to fund overtime expenses though at least February 2007. *(Please see the Department of Corrections narrative in the JLBC Meeting section for more information.)*

Arizona Criminal Justice Commission – Report on Criminal Justice Enhancement Fund – Pursuant to A.R.S. § 41-2401C, the Arizona Criminal Justice Commission (ACJC) is required to provide an annual report by December 1 on the receipt and expenditures of Criminal Justice Enhancement Fund (CJEF) monies distributed to law enforcement agencies. CJEF consists of a 47% assessment on certain fines, penalties, and forfeitures imposed and collected by the courts. CJEF monies are statutorily distributed to various agencies for criminal justice related activities. In FY 2006, CJEF revenues totaled \$42,033,900 and the total funds available (including the beginning balance and adjustments) for the fiscal year was \$58,612,100. Total CJEF expenditures were \$39,889,600 in FY 2006, leaving an ending balance of \$18,722,500. In FY 2006, CJEF revenues grew by 8.7%, expenditures increased by 8.5%, and the overall ending balance increased by 16.7%.

Arizona Criminal Justice Commission – Report on Statewide Methamphetamine Interdiction Efforts – Pursuant to Laws 2006, Chapter 337, the Arizona Criminal Justice Commission (ACJC) is required to report quarterly with a summary outlining the use and effectiveness of \$3 million appropriated in FY 2007 for increased methamphetamine interdiction efforts by the counties.

ACJC reported that as of September 30, 2006, no monies had been spent. ACJC also reported that 8 counties (Apache, Coconino, Graham, Greenlee, La Paz, Mohave, Navajo and Yuma) did not submit any information on the utilization or effectiveness of the methamphetamine funding received. At

least 7 counties, however, reported that they intend to participate in the Arizona Meth Project (AMP). Modeled after the Montana Meth Project, AMP is designed as a multi-media public service program that targets youth, young adults and their parents.

Of the counties that did report to ACJC, 5 (Cochise, Pima, Pinal, Santa Cruz and Yavapai) were in planning stages to identify other possible programs for Chapter 337 funding.

Department of Economic Security – Report on Available State and Federal Domestic Violence Funding – Pursuant to a General Appropriation Act footnote, the Department of Economic Security is submitting its report to the Committee on available state and federal domestic violence funds and the fiscal agents receiving those monies. There is a total of \$20.6 million currently used by 6 state entities for domestic violence services.

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund Program Improvements – Pursuant to a General Appropriation Act footnote, the Water Quality Assurance Revolving Fund Advisory Board is required to report by December 1, 2006 on improvements to the Water Quality Assurance Revolving Fund Program (WQARF) which would result in efficiency savings of time or funding, reduction of program costs not directly associated with a listed site, and the enhancement of cost recovery from responsible parties. The WQARF Program is similar to the federal Superfund program in that it is designed to monitor, contain, and remediate contaminated groundwater at specified sites.

Rather than make new recommendations for improvements as required by the footnote, the WQARF Advisory Board's response included 11 descriptions of current program practices which the Board believes results in efficiencies.

Arizona Department of Environmental Quality – Report on Arizona Alternative Testing and Compliance Study – Pursuant to Laws 2000, Chapter 404, the Department of Environmental Quality (DEQ) has submitted the Director's report for the Arizona Alternative Compliance and Testing Study (AZACTS). The purpose of this study was to research and evaluate the feasibility and effectiveness of alternative technologies to identifying high pollutant vehicles and requiring their repair prior to entrance into the Phoenix or Tucson metropolitan areas. AZACTS was also required to evaluate and identify methods to improve motorist compliance with existing and alternative emissions inspection programs.

The report submitted by the Eastern Research Group included 23 recommendations to improve emissions reductions, cost effectiveness, or public acceptance of the emissions control program in place in the Phoenix and Tucson metropolitan areas.

The department has accepted 4 of the report's findings, 3 findings will require further analysis, and 3 were not

recommended. The department did not comment on several of the findings from the contractor's report.

Department of Health Services – Report on AIDS Drug Assistance Program Expenditures – The Department of Health Services submitted information on the expenditures from its AIDS Drug Assistance Program in FY 2006 pursuant to Executive Orders 97-10 and 98-3. According to the report, the program served an average of 860 clients a month in FY 2006. This is a decrease of 6 clients a month from FY 2005 levels. The average money spent per participant in FY 2006 was \$881, down 6.1% from FY 2005 levels.

In total, the program spent \$9,090,600 on medications in FY 2006. This includes \$8,090,600 from Federal Funds and \$1,000,000 in General Fund monies. The program expended \$9,736,300 in FY 2005.

Department of Health Services – Report on Arnold v. Sarn – Pursuant to a footnote in the General Appropriation Act, the Department of Health Services has submitted a quarterly report to the Committee on the department's progress toward settling the Arnold v. Sarn lawsuit. The department reports that on September 14, 2005 the plaintiffs filed a Motion for Non-Compliance as a result of the Court Monitor's 2005 Independent Review. As a result, the parties agreed to a Joint Stipulation requiring the department to develop a plan that increases service capacity for independent living skills, housing support services, vocational/work supports, and substance abuse services. The department will submit its progress to the Court Monitor no later than December 29, 2006 and the Motion for Non-Compliance will be dismissed if the Court Monitor certifies that the department has met its obligation. The Court Monitor's 2006 Independent Review is expected to be completed before the next scheduled status hearing on January 12, 2007. If scheduled progress is made, the department is expected to have fulfilled the agreed upon exit criteria by June 2008.

Arizona Board of Regents – Enrollment Counting Day Report – Laws 2006, Chapter 352 required the Arizona Board of Regents (ABOR), by December 1, 2006, to report on full-time equivalent (FTE) student enrollment counts as of the 21st day and the 45th day of the fall 2006 semester. Chapter 352 specified the 45th day because A.R.S. § 15-1466.01 requires community colleges to conduct their enrollment counting at that time. Historically, the universities conduct their enrollment counting on the 21st day.

ABOR reports that, throughout the Arizona University System, enrollment dropped from 110,580 FTE students on the 21st day to 108,769 FTE students on the 45th day, a decline of (1,811) FTE students, or 1.6%. If the part-statutory, part-conventional student enrollment funding formula used by JLBC Staff were applied to the lower, 45th day enrollment counts, General Fund support for the university system as a whole would decline by \$(13.4) million dollars, or (1.4)% of the FY 2007 General Fund appropriation.

Arizona Board of Regents/Arizona Community Colleges – Report on Articulation and Transfer for Arizona Public Postsecondary Education – Pursuant to A.R.S. § 15-1824, the Arizona Board of Regents and the community colleges are required to submit an annual report of their progress on both articulation and meeting statewide postsecondary education needs by December 15.

In response to this mandate, both the universities and the community colleges continue to move toward the goal of seamless course transfer and statewide access to higher education.

This year's progress in implementing the transfer model and support systems include:

- Approximately 5,000 community college students completed the Arizona General Education Curriculum, which satisfies lower division general education requirements at the universities. This is a 25% increase over last year, and a 250% increase over 2002.
- The Course Applicability System (CAS) Web site currently experiences 4,000 average "unique visitors" per week. This new measure "unique visitors" is being used instead of "website hits" as it is considered to be a more reliable method of tracking, since "hits" can include traffic generated by programs designed to simulate user hits.

Department of Revenue – Report on General Fund Enforcement Revenue – A footnote in the General Appropriation Act requires the Department of Revenue (DOR) to report quarterly on the effectiveness of the department's overall enforcement and collections program, including a comparison of projected and actual General Fund revenue enforcement collections for FY 2007. DOR had General Fund enforcement revenues of \$102.7 million in the first quarter of FY 2007, which was \$19.3 million above their goal of \$83.4 million.

Department of Revenue (DOR) – Report on Ladewig Expenditures – DOR reports monthly on the status of the Ladewig litigation. DOR's monthly status report shows expenditures of \$26,200 for Ladewig administrative costs in November 2006. Expenditures and accounts forwarded to Unclaimed Property totaled \$97.7 million through November 2006, including \$81 million of expenditures and \$16.7 million of accounts forwarded to Unclaimed Property. If individuals entitled to a Ladewig refund cannot be located, their funds are deposited in the Unclaimed Property Fund and eventually returned to the General Fund. DOR was allocated a total of \$94.8 million for Ladewig expenses in FY 2007. DOR pays Ladewig expenses which exceed the \$94.8 million allocation from the tax refund account in the General Fund. Any unused amounts revert to the General Fund.

Arizona Department of Water Resources – Report on Fees Collections in the Assured and Adequate Water Supply Fund – Pursuant to the General Appropriation Act (Laws 2006,

Chapter 344), the Arizona Department of Water Resources (DWR) is required to report quarterly on the amount of fees collected by the Assured and Adequate Water Supply (AAWS) Program.

Laws 2005, Chapter 217 established the AAWS Administration Fund to provide for the costs of the AAWS Program. New fees were approved in September 2006. As a result, collections in the first quarter of FY 2007 amounted to \$74,500, making the fund balance as of September 2006 approximately \$177,000. However, DWR anticipates that the fees will eventually generate approximately \$1,100,000 per year for the operations of the AAWS program.

Arizona Department of Water Resources – Report on the Indian Firming Expenditure Plan – Pursuant to the General Appropriation Act (Laws 2006, Chapter 344), the Arizona Department of Water Resources (DWR) has reported its expenditure plan for the \$13,500,000 appropriation to the Arizona Water Banking Authority (AWBA) to carry out the state's obligations related to Indian water rights.

The Arizona Water Settlements Act (P.L. 108-451) was signed in 2004 and identifies the responsibilities for the United States Secretary of the Interior and the State of Arizona in supplementing, or "firming," Indian water supplies during drought periods. The settlement includes a provision requiring that approximately 60,600 acre-feet of water to be made available for certain Indian tribes in times of shortage over a 100-year period. Of that amount, the State of Arizona agreed to provide 23,700 acre-feet in years of shortage - 15,000 for the Gila River Indian Community and 8,700 acre-feet for future settlements.

In 2005, the Indian Firming Study Commission was created by the Legislature to develop the Indian Firming program. The Commission estimated that to ensure the state fulfill its obligations under the agreement, approximately 550,000 acre-feet of storage credits would be required to deliver the state's obligation of 23,700 acre-feet in years of shortage.

AWBA's expenditure plan for the \$13.5 million is to spend \$2,700,000 per year from 2008 through 2012. AWBA estimates that this will purchase a total of 259,400 storage credits, or 47% of the state's Indian firming obligation.

State of Arizona

General Fund Revenue: Change from Previous Year and June Forecast

November 2006

	Current Month					FY 2007 YTD (Five Months)				
	Change From					Change from				
	Actual	November 2005		Revised Forecast		Actual	November 2006		Revised Forecast	
	November 2006	Amount	Percent	Amount	Percent	November 2006	Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	365,372,337	\$31,360,925	9.4 %	\$5,965,737	1.7 %	\$1,866,079,170	\$161,872,199	9.5 %	\$31,904,670	1.7 %
Income - Individual	249,526,954	3,129,038	1.3	(17,080,546)	(6.4)	1,426,606,389	124,879,420	9.6	1,531,089	0.1
- Corporate	5,165,061	(690,458)	(11.8)	(1,017,539)	(16.5)	321,316,572	57,784,559	21.9	37,828,572	13.3
Property	6,841,102	1,803,019	35.8	41,102	0.6	8,167,940	1,080,805	15.3	(1,432,060)	(14.9)
Luxury	7,695,739	1,933,487	33.6	2,070,739	36.8	31,300,706	4,437,193	16.5	3,175,706	11.3
Insurance Premium	203,992	94,886	87.0	203,992	--	114,516,660	4,949,989	4.5	3,216,660	2.9
Estate	(1,075,680)	(1,378,124)	--	(1,075,680)	--	(997,129)	(10,328,385)	--	(1,197,129)	--
Other Taxes	51,968	(6,008)	(10.4)	(13,157)	(20.2)	264,665	(10,671)	(3.9)	(60,960)	(18.7)
Sub-Total Taxes	\$633,781,473	\$36,246,765	6.1 %	(\$10,905,352)	(1.7) %	\$3,767,254,973	\$344,665,109	10.1 %	\$74,966,548	2.0 %
<u>Other Revenue</u>										
Lottery	2,590,900	(7,715,000)	(74.9)	(5,209,100)	(66.8)	13,398,400	(5,324,200)	(28.4)	(6,201,600)	(31.6)
License, Fees and Permits	2,862,130	505,300	21.4	200,130	7.5	19,125,397	6,302,578	49.2	3,721,697	24.2
Interest	9,255,553	4,521,237	95.5	3,955,553	74.6	34,824,120	18,288,006	110.6	12,324,120	54.8
Sales and Services	3,627,638	(129,996)	(3.5)	(171,562)	(4.5)	16,795,590	(3,607,869)	(17.7)	(2,139,510)	(11.3)
Other Miscellaneous	2,923,614	1,034,750	54.8	2,082,114	247.4	12,771,156	5,339,589	71.9	7,868,756	160.5
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	157,103	26,587	20.4	(542,897)	(77.6)	1,093,199	(2,581,316)	(70.2)	(3,406,801)	(75.7)
Sub-Total Other Revenue	21,416,938	(1,757,122)	(7.6) %	314,238	1.5 %	98,007,862	18,416,788	23.1 %	12,166,662	14.2 %
TOTAL BASE REVENUE	\$655,198,411	\$34,489,643	5.6 %	(\$10,591,114)	(1.6) %	\$3,865,262,835	\$363,081,897	10.4 %	\$87,133,210	2.3 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(45,935,888)	(10,500,144)	29.6	0	0.0	(229,679,440)	(52,500,720)	29.6	0	0.0
Sub-Total Transfers In	(45,935,888)	(10,500,144)	29.6 %	0	0.0 %	(229,679,440)	(52,500,720)	29.6 %	0	0.0 %
TOTAL REVENUE	\$609,262,523	\$23,989,499	4.1 %	(\$10,591,114)	(1.7) %	\$3,635,583,395	\$310,581,177	9.3 %	\$87,133,210	2.5 %